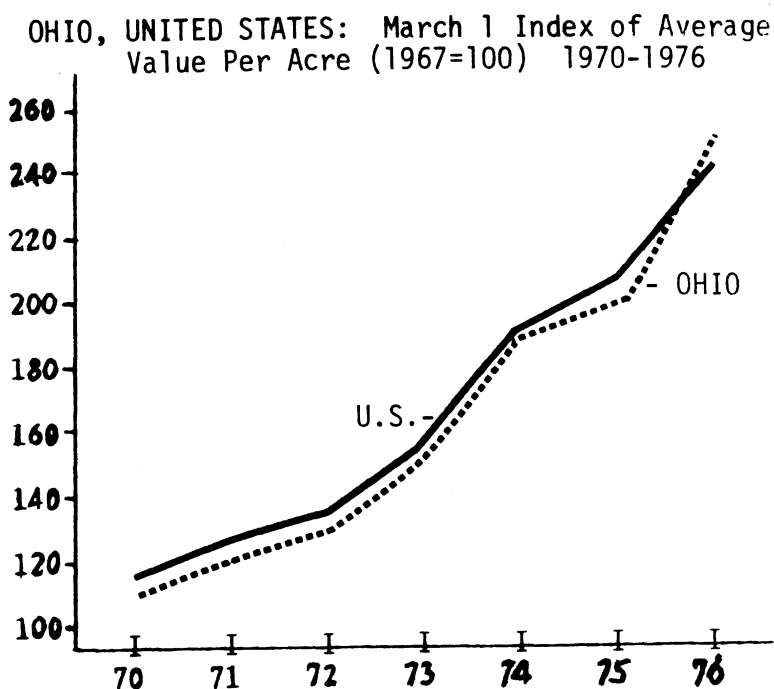


WHY IS FARM ESTATE PLANNING CRITICAL TODAY?^{1/}

Inflation, rising prices, improved technology and larger units in recent years have pushed values of most farm estates into a category where settlement costs are catastrophic without careful planning beyond the death of the second spouse. U.S. farm real estate values per acre in early 1975 averaged about 11 times higher than in 1940 and land values have gone up over 30 percent during the past year. The same increasing land value trend is prevalent in Ohio as shown in Figure I.

FIGURE I:

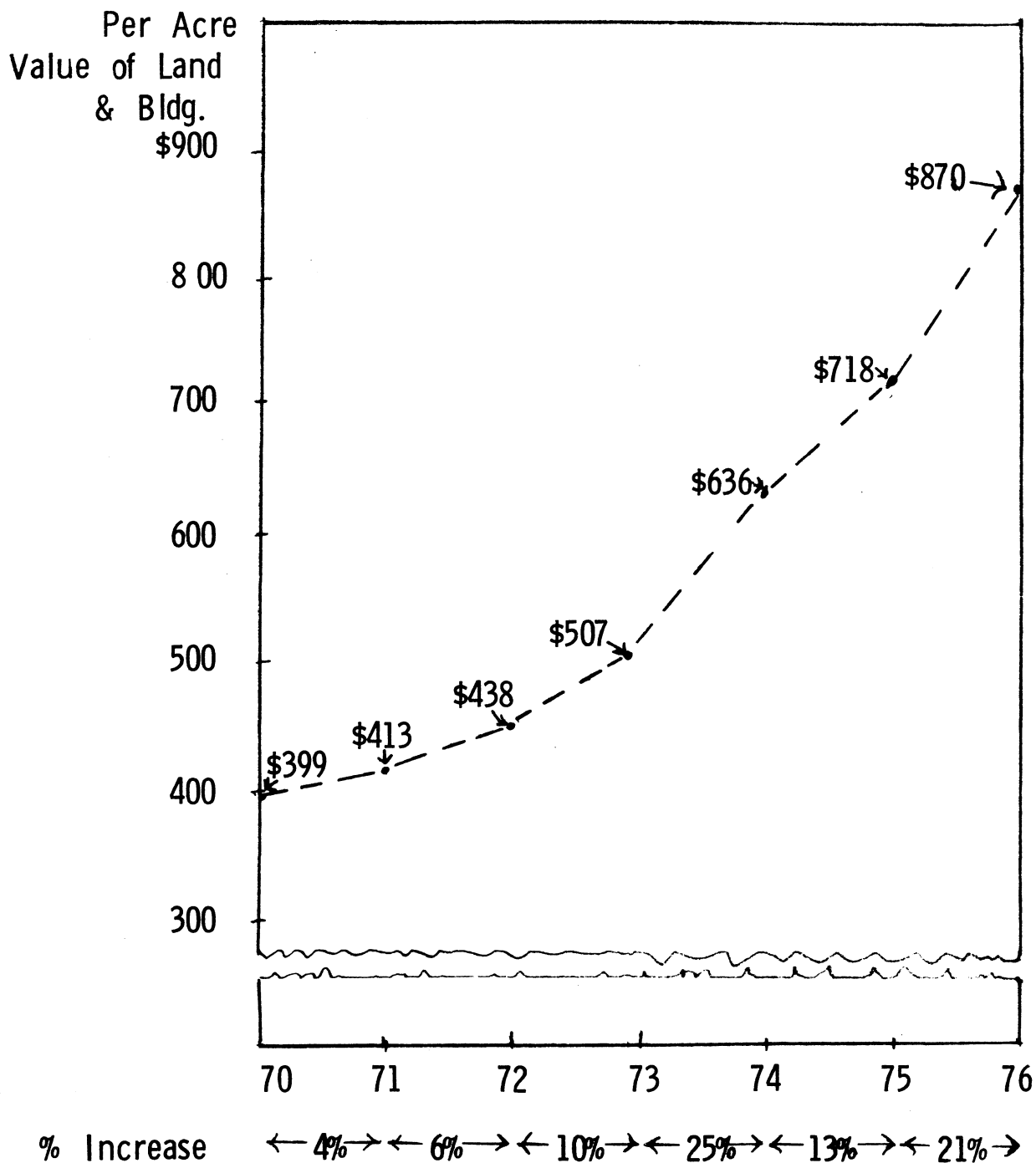


Source: USDA Statistical Reporting Service

Note Figure II to see how average Ohio land values per acre have increased and particularly over the last three years with annual increases of 23 percent, 13 percent and 25 percent, respectively. We all know of many farm units where land values are two to four times higher than these average values.

^{1/} Prepared by John E. Moore, Extension Economist, Farm Management and Lynn Forster, Assistant Professor, Agricultural Economics Department, Ohio State University for Estate Planning Consultants Workshop, September 15, 1976, OSU Branch Campus, Marion, Ohio.

Figure II : AVERAGE FARM LAND VALUES IN OHIO 1970-1976 ^{1/}
(As Of March 1 Of Each Year)



^{1/} Source: USDA Statistical Reporting Service

The average value of real estate and improvements has increased rapidly in the last few years in both Ohio and U.S. as shown in Figure III. However, these averages underestimate the real estate values on the above average commercial farms which commonly can have a total value of assets from \$250,000 to well above \$500,000.

Figure III: Farm Real Estate Indexes and Values, Ohio and United States, 1974-76

Indexes and Values	Ohio			United States ^{2/}		
	1974	1975	1976	1974	1975	1976
March 1 index of average value per acre	184	208	252	187	214	244
Average value per acre with improvements (dollars)	636	718	870	310	354	403
Total value of farm real estate (million dollars) ^{1/}	10,748	12,145	14,619	324,159	369,769	420,856
Total value of farm buildings (million dollars)	2,773	3,097	3,684	56,308	63,978	72,294
Average value of farm real estate per operating unit (dollars)	99,100	112,000	136,000	125,500	143,800	165,000
^{1/} Includes farm buildings. ^{2/} 48 states.						

These farm business trends can surely challenge the professionals working in the estate planning arena to stay as much up-to-date as possible. Even more important is for these planning consultants to see the complexities of the problem and the need to act as a team to develop a sound plan for the farm intergeneration transfer.

If the trends in land values to date is not enough to conclude that farm estate planning is a high priority for the farm business then project the annual appreciation rates on the farmer's present net asset values for the number of years of his and his wife's life expectancy or just even for five or ten years into the future.

Following is the results of taking our example farm situation projecting the results of eight different methods or estate plans by the use of a computer program developed in the Department of Agricultural Economics at O.S.U.

Assumptions:

1. Presently the net value of the husband's assets or estate is \$400,000 and the wife's estate is \$265,000.
2. Annual appreciation rate of 7 percent on both parent's assets as long as they live.
3. Settlement costs includes executor or administrator's fees, legal fees, Ohio and Federal estate taxes.

**Total Cost of Estate Settlement In Example Farm For Both Parents Under
Eight Alternative Plans**

<u>Alternative Plans</u>	<u>Cost Of 1st Spouse To Die *</u>	<u>Cost Of 2nd Spouse To Die</u>	<u>Total Cost Of Both Spouses</u>
# 1 Husband dies today Wife in 5 years All assets willed to spouse	\$53,776 (Husband)	\$238,980	\$292,756
# 2 Wife dies today Husband in 5 years Will same as in # 1	\$24,510 (Wife)	\$260,252	\$284,762
# 3 Husband dies today Wife in 5 years Will $\frac{1}{2}$ to spouse $\frac{1}{2}$ to children	\$53,416 (Husband)	\$179,839	\$233,255
# 4 Wife dies today Husband in 5 years Will $\frac{1}{2}$ to spouse $\frac{1}{2}$ to children	\$24,210	\$214,439	\$238,649
# 5 Husband dies in 10 years Wife in 15 years All assets will to spouse	\$126,092 (Husband)	\$467,272	\$593,364
# 6 Wife dies in 10 years Husband lives 15 years Same will	\$73,524 (Wife)	\$510,123	\$583,647
# 7 Husband dies 10 years Wife in 15 years Will $\frac{1}{2}$ to other parent; $\frac{1}{2}$ to children	\$125,672 (Husband)	\$360,025	\$485,697
# 8 Wife dies in 10 years Husband dies in 15 years Will $\frac{1}{2}$ to other parent; $\frac{1}{2}$ to children	\$73,164 (Wife)	\$427,591	\$500,755

*Costs are lower at the first spouse's death when $\frac{1}{2}$ is willed to children because of a higher Ohio Estate tax exemption than when all is willed to remaining spouse.

Conclusions:

Farm estate planning is a high priority today because:

1. Individual farm equities are at an all time high.
2. As a result of appreciation, equities compound the transfer problem for future years.
3. Tax consequence and settlement cost can spell disaster for the continuation of the farm business.
4. Operating son's role is more futile than a generation ago without definite plans for his future financial security.